511 villages are yet properly supplied. The shortage of food, of course, is more acutely in the cities. Moreover, the purchasing power of the salaries--and practically everyone in a Communist society is a salaried worker--is definitely low.

[465] The average MONTHLY income of an independent farmer owning 5-10 acres of land was between 400-500 forints in 1954. At the same time, kolkhoz officials and agronomists were making around 1,000 forints.

435 511 Below are listed some of the 1954 prices in various Magyar villages which will perhaps give some indication of how far the average wages could go:

	forints
Rice (1 kg.)	26.00
Sugar (1kg.)	10.60
Smoked lard (1 kg.)	47.00
Sausage (1 kg.)	50.00
Man's suit (cheapest)	600.00
Man's shirt (cheapest)	80.00
Man's shoes (one pair)	300.00

511 433 Manufactured goods during this time were not only expensive but scarce. For instance, 30,000 plows were needed in the villages in 1954 in order to replace the old ones, but, according to government sources, only 2,000 reached the village stores. The same situation

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technical quality and in commercial organization. But they were growing in an atmosphere of protectionism, intensified in the thirties by a system of exchange regulations and import quotas, and they became dependent, with few exceptions, on a narrow national market. Consequently the competitive spirit was alien to the Hungarian entrepreneur. He did not naturally think of extending markets by reducing costs and prices, and was rather monopolistically minded, bent on securing profits by charging high prices. Thus the tendency, then prevailing internationally, of industrial and agricultural prices to diverge to the disadvantage of the latter, had been accentuated. These developments furthered industrial expansion, enabling industrialists to extend their capital by ploughing back considerable profits. In the absence of a capital market this was virtually the only way of financing. High industrial profits, however, caused discord, sharpened antagonism between the different classes of society, and made industry and industrial capitalism unpopular.

Industrial development implied decreasing imports of finished products. But Hungarian industry was, as it still is, largely dependent on imported raw materials, particularly on imports of timber, metals, and cotton. Industrial production cannot be carried on unless the necessary materials can be paid for by exports. The exports had, moreover, to cover the deficit in the invisible items of the balance of payments. On the average of the period 1933–7, 44 per cent of the total imports consisted of raw materials, 29 per cent of semi-finished products, and 27 per cent of wholly manufactured goods. Of exports, roughly 60 per cent were unprocessed food—wheat, cattle, pigs, poultry—and raw materials, 10 per cent semi-finished products, and 30 per cent manufactured articles. During the period in question exports amounted to about 12 to 13 per cent of total national production.

The productive capacity of Hungarian industry was enlarged between 1938 and 1943 by the launching of a public investment programme. Yet the consumptive power of the country was not extended: it was, in fact, contracted by the steadily increasing inflation. The expansion of industry during these years was, of course, part of the effort of rearmament, and was also intended to feed the insatiable appetite of the Third Reich.

The war made inroads on the country's enlarged industrial capacity through bombing, through damage inflicted during the campaign of 1944–5, and through Russian dismantling in the first phase of the occupation. It was not capacity, however, which set limits to production after the end of the war. The decisive limitation was the lack of coal and raw materials along

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434 only a fraction of normal needs. According to the statements of the Institute of Economic Research, rations varied from month to month between 24 and 40 per cent of requirements.[1] This
● 435 supply position necessarily undermined price control. Its barriers were broken through with an almost elemental force, and a black market for food emerged, with prices rising to four or fivefold those officially fixed. Aware of their inability to cope with the situation, the authorities gradually released a number of important products like maize, potatoes, eggs, poultry, fat, and pork from price control.

Apart from shortage and the inadequacies of administration, price control was rendered difficult by the artificial price structure. The Hungarian Government, when deciding upon the price policy to be pursued after the introduction of the new currency, had been confronted with a peculiar task. The inflation, extravagant as it became during the second quarter of 1946, had resulted in a collapse not only of the currency but of the entire price system. A new price system had to be constructed in a sort of vacuum as from August 1946. The price structure of 1938 was largely accepted for crop products. The price of wheat was arbitrarily fixed at 40 forint per quintal, 2·1 times the pengo price in 1938. On this basis the prices of other produce were determined according to the cost scale in 1938. In view of the heavy war losses of livestock, a price multiplier exceeding that for grains was afforded for animal products. Moreover, the relation between farm prices as a whole and industrial prices, in view of the special scarcity in manufactured goods, was altered in favour of industry, and it was hoped to take advantage of the intense demand of the peasants for manufactured goods to draw off some of the surplus purchasing power. The shifts of the group indices are reflected in the following figures, indicating pengö prices for 1938 and forint prices for 1946.

	Wholesale Prices	
	1938	*August 1946*
General Index	100	400
1. Farm products	100	330
(*a*) Agricultural products	100	270
(*b*) Animal products	100	420
2. Industrial products (excluding food industry)	100	460

Thus the intention was that the price level in forint, as measured by the wholesale price index, should be fourfold the price level in 1938 expressed in pengö. Originally the pengö was defined as 1/3,800 kg. fine gold. The *de facto* devaluation following the crisis of 1931 reduced the gold value of the pengö by roughly one-third. The pengö equivalent of 1 kg. fine gold

[1] 2,400 calories for the average consumer, 3,200 for manual workers, and 4,400 for heavy workers.

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rose therefore to 5,757. By the monetary reform of 1946 13,210 forint were equated to 1 kg. fine gold, involving a ratio of 1 : 2·29 between pengö and forint. However, in determining the new price level a rise of world market prices (expressed in U.S. dollars) of approximately 75 per cent was assumed for the period 1938–46. The result was a multiplier of four as compared with the price level of 1938.

The price structure, as conceived at the time of the stabilization, proved just the opposite of that which the circumstances required. Though supplies of industrial goods were short, the demand for food naturally was far more urgent. Consequently the price structure imposed in August 1946 was soon swept away. Both the wholesale price index and the cost of living indicate violent changes.

	Wholesale Prices			*Cost of Living*		*Hourly Wages in Manufactures*
	Total Index	Farm Products	Industrial Materials and Products	Total	Food	
		January 1947 = 100		Aug. 1946 = 100		Jan. 1947 = 100
1946						
August	99·0	87·6	101·7	100·0	100·0	—
December	98·2	92·6	99·9	106·2	113·5	—
1947						
July	120·1	170·5	105·9	110·0	117·0	128·6

Under the pressure of shortage the prices of farm products nearly doubled during 1946–7. Industrial prices, though influenced by the increasing cost of imported raw materials, were under more effective control. Anyhow the year preceding planned economy was not a happy prelude from the point of view of the efficiency of price control.

In view of the state of prostration in the immediate post-war period, achievements in the field of production and finance during the twelve months' period preceding the start of the Three-year Plan on 1 August 1947 were remarkable. Yet they were modest measured by the requirements. In spite of marked progress in the year following the monetary reform, the real national income approached only two-thirds of the pre-war level. Food supplies in this year, as calculated by the Institute of Economic Research, represented 34 per cent less in calories than supplies in 1938–9, while consumption of textiles reached, according to the same source, roughly 50 per cent of the pre-war level.[1]

[1] In addition, the pre-war standards used as bases of comparison were already low. Nutrition was, as shown by the investigation of the League of Nations, far from satisfactory. As to the consumption of manufactured goods some striking figures are given in the publication of the P.E.P., *Economic Development in S.E. Europe* (London, 1945), p. 70. According to these figures the consumption of cotton goods per head of population in Hungary was stated to have been in 1937: 2·4 kg. against 8 kg. in Western Europe; the respective figures for paper consumption were 10 and 30 kg., for sugar consumption 12·7 and 32 kg.

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Plan. But its activities gained a firmer footing through the Plan. It was naturally understood that credits would be allocated only within the framework of the Plan. This general rule, however, was not adequate for practical action. Selection was needed even among Plan objectives, for a switch-over of credits from one branch to another according to actual developments often proved necessary. This support was particularly important when at the initial stages the different strata in the Hungarian economy were but loosely connected, the carrying out of the Plan being in many respects sectional rather than comprehensive. The Committee, in executing the credit plan, provided for adjustments which might be necessitated by some unforeseen urgent requirements. Irregular supplies of raw materials might call for shifts in production, or other occurrences might impede an expansion of production on the scale planned. In cases (not very common) where orders received fell short of the quotas, production could be reduced by permission of the planning authorities.

The enterprises had to apply for fuel and raw-material allocations, just as before the Plan, under the system of controlled economy. Exchange regulations as well as price control remained essentially unchanged. The organization of trade was not yet altered; industrial concerns were in a position to sell their products to any firms they chose. The concerns supplying private dealers mostly pertained to the light industry, while heavy industry was engaged in Government orders. The vagueness of the individual plans of light-industry enterprises enabled them to adapt their production to subsequent shifts in demand.[1]

At the same time the executives had to comply with a special control exercised by the National Planning Department. Its representative was present in every public or private concern of importance.[2] The position of these functionaries differed widely. In some cases (especially in State-owned enterprises with executives personally responsible to the authorities) they were mere observers or liaison officers. In other instances they became the real commanders of the enterprise. But, apart from the degree of this personal influence, the managements had to be aware that applications for allocation of raw materials, for credit, or for foreign exchange would be considered only if designed for purposes conforming to the specific plan approved for the enterprise. Besides these practical considerations, there was another strong argument for sticking closely to the approved plan—any departure from it involved a danger of an indictment for economic sabotage.

[1] As pointed out on p. 31.

[2] See also p. 29.

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AGRICULTURE

241 In agriculture a system of planning was built up which was reminiscent up to a point of the form of agricultural planning in 471 Great Britain or of the control and guidance of agriculture 433 introduced in other countries of Western Europe. The common characteristic of these systems was production by private enterprise under central control, one of the main objectives of the direction being to ensure the delivery of certain quantities of [435] food to the public authorities. Hungary, like the Western countries, relies within the pattern of control on price policy and on the granting of other advantages on certain products to induce the kinds of production desired. In the methods applied, however, the similarity was soon to cease. In contrast with the Western countries, the prices fixed in Hungary for deliveries were insufficient, as evidenced by black-market prices far exceeding the official ones. The inducement to evade the requirements of delivery was, therefore, strong. It was of vital importance for the Government to secure at least the moderate rations of food prescribed for the urban population. As from 1946 a machinery for collecting had been carefully developed, and later on flying squads were organized to apply harsh methods in repressing the peasants' attempts to slip through the meshes of the regulations requiring the delivery of grains, fat, and other produce. As a considerable part of the normal farm output had to be handed over for public supplies, an efficient working of the system would mean that the farmer was compelled to produce adequately if he was to have enough left for his private consumption.

It was not solely through the tightening of the collection system that the introduction of planning changed the position of the individual farmer. In order to secure the growing of certain products, direct compulsion was applied by decrees ordering in detail which part of the holdings should be devoted to the cultivation desirable. This compulsion was the very essence of the agricultural plan, which embraced the whole of the arable area. A plan was drawn up for production in stock-raising, too, listing the quantities of meat, milk, poultry, eggs, wool, etc. to be produced. These latter figures remained mere targets, but for crop growing the plan was, in one respect at least, realized. There were two sets of targets; the area to be sown with each product and the average yield. The latter represented guesswork more than anything else, though the estimates of yields lower than those of 1938–9 showed the intention of the planners to allow for underlying changes.[1]

[1] Average yields in 1938: wheat 9·6, rye 7·3, barley 9·2, oats 8·0, maize 13·1, potatoes 42·3, and sugar-beet 126·6 quintals per yoke.

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resided in every administrative district—about 200 by the end of the first Plan year.

The change in the position of the farmers can be fully appreciated only when the political atmosphere in the rural districts is realized. The edict of November 1947, in protection of the Three-year Plan against criminal offences, could naturally be applied equally to agriculture. In case of delay in some part of his work, or of any infringement of delivery orders, the farmer might be threatened with prosecution for economic sabotage. This possibility often became a reality as soon as the campaign which aimed at splitting the peasant population had been started. The November edict then proved to be a very effective weapon in fighting the *kulaks*, i.e. the wealthy peasants with a property exceeding 25 yokes. Holdings over that size were supposed to need hired labour, qualifying the owner as a class enemy. The farmers with a smaller property than 25 yokes were acknowledged as allies of the working class, not exploiting labour but themselves running their farms assisted only by members of their families.

THE UN-PLANNED SECTION

Small-scale Industries

The control exercised by the Planning Department did not extend to unincorporated concerns employing fewer than twenty workers. The share of the small units below this limit in the total output of manufactured goods was near 25 per cent. These units were not obliged to submit production plans. Investments carried out by them required approval only when exceeding the amount of 200,000 forint (£4,000). Consequently an appreciable part of industrial production and some part of total investment (in small-scale industry, agriculture, and trade) remained 'un-planned'.

Of raw-material supplies it was decided that certain quotas should be allotted to small-scale industry. These quotas were as a rule not adequate, allowing only a limited scope for the activities of handicrafts. Small manufacturers and handicraftsmen practically carried on their business under a controlled but not a planned economy. Yet controls were not efficient enough to regulate the activities closely. This applied in the first place to the prices they charged. The profits they earned, therefore, were often far above the officially approved rates. Consequently they were able to pay wages and raw-material prices in excess of the prescribed limits. Such evasions of the price control on raw materials were not extensive. The black market, though

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important for food, was not of appreciable significance as far as raw materials were concerned. Nevertheless the leakages did involve some disturbance within the planned portion of economy, especially in the sphere of labour, where the attraction exerted by the higher wages paid by the small employers restricted the supply of skilled labour for factories.

Labour Market

Individual enterprises were obliged to draw up specific manpower plans, but no central planning was established for the labour market. The planners were satisfied that growing production would automatically absorb parts of the labour reserve. They did not plan for full employment, realizing that the Three-year Plan would at the most provide employment only for a part of the labour reserve in the rural districts. Owing to the certainty that reserves were far in excess of Plan requirements, the recruiting of labour, except where skilled labour was concerned, was left in the hands of the employers, using the services of the labour exchanges for that purpose without any authoritative interference. The wages at which applicants were to be engaged had been fixed, of course, by approved collective agreements.

The increase in numbers employed was markedly slow during the first Plan year, as 'in-door' unemployment, widely spread in 1946–7, had first to be absorbed. Owing to the surplus of unskilled labour there was no need from the economic point of view for comprehensive labour organization, but steps soon had to be taken to overcome the shortage of skilled labour.

THE TARGETS—PLANNING FOR EXPANSION

As officially proclaimed the fundamental conception of the Plan was to raise production on a scale sufficient for a gradual improvement in the standard of living, and for a capital accumulation at an unprecedented rate. The initial impetus for an accelerated rhythm of economic activity given by the Plan was supported by an extension of credit, which was not necessarily inflationary in an economy with unutilized resources. The subsequent expansion of production was to be effected by a steadily enlarged capital equipment and by improved labour productivity. Industrial production was estimated at about 60 per cent of the pre-war level in 1946–7. The Plan envisaged the re-establishment of the pre-war standard of living by the end of the three-year period. In view of a steeply rising rate of net investment—from 10 to 18 per cent, against some 5 per cent in the

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241 the big land-owners would have encountered troubles which
433 would have impaired the productivity of their estates.

From the following table it may be observed that changes, compared with the period before the war, in the relative size of areas to be devoted to the different branches of cultivation are not very great. The main features are reductions in the sowing of bread grains and the extension in the production of oil seeds. Reduced cultivation of bread grains accords with a permanent trend, while the emphasis placed on oil seed was rather a momentary reaction on account of the shortage of animal fats.

	Area sown in 1,000 yokes			*Area sown in 1947–8 in percentages of Plan estimate*
	Average 1934–8	*1946–7*	*1947–8*	
Wheat	2,806	2,388	2,324	95
Rye	1,114	978	1,005	106
Barley	811	773	784	93
Maize	2,029	2,309	2,263	107
Potatoes	509	482	490	93
Sugar-beet	81	169	185	148
Oil seeds:				
Main crops	63	278	390	105
Subsidiary crops	270	447	547	
Fodder	1,170	1,045	1,030	96

The divergence from the agricultural plan, so far as sown areas were concerned, was of no great consequence. But the supply situation was determined by average yields which were disastrously low in 1945–6 and improved only slightly in 1946–7. Food supplies during 1947–8 were dependent on the poor crops of the previous year. Thus scarcity of food became a feature of the first Plan period, as it was a characteristic of the year of the monetary reform. Inadequacy of food supplies was reflected in the price movements during 1946–7 as well as in that of the first Plan year.

	Crops results in million quintals		
	Average 1934–8	*1945–6*	*1946–7*
Wheat	22·2	11·3	12·6
Rye	7·0	4·2	5·0
Barley	6·1	4·4	4·0
Maize	23·1	13·6	17·8
Potatoes	21·3	11·4	14·6
Sugar-beet	9·6	5·2	11·6

RISING PRICE LEVEL

435 In the course of the year 1947–8, with soaring prices of farm products and considerably increased prices for manufactured articles, fluctuations were violent. The authorities, endeavouring to conform their policy to facts, roughly doubled the official prices for bread grains. By the end of the period reports on

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favourable crop prospects opened hopes towards relieving shortages. Maize and potato prices collapsed, thus partly counterbalancing previous movements.

Ultimately, when striking a comparison between the beginning and the end of the first Plan year, a rise of 9 per cent of the general price level occurred, for which, this time, industry was more responsible than agriculture.

Rising wholesale prices were not fully reflected in the official cost of living because of subsidies paid. It should be borne in mind, however, that in view of the desperate food conditions the real cost of food exceeded the level shown in the official index. According to expert computations, taking into account black-market prices and the relative importance of supplies from this source, the real cost of food during 1946–7 was at a rate varying between 20 and 60 per cent above the official level.

With low—and sometimes irregular—food rations, the black market continued to be an indispensable source of supply for the consumer during 1947–8. At times black-market prices amounted to fivefold the official ones. This applied, in particular, to bread and flour, the prices of which, owing to subsidies, did not follow the increase in the price of grain. No authoritative statement is available as to the degree to which the cost of food was affected by these conditions in 1947–8. It might be assumed, however, that the importance of the black market decreased during the second half of the year. This was not brought about by more abundant supplies, but rather by the fact that, as referred to above, a number of important commodities, such as maize, potatoes, eggs, fat, and pork, were released from price control. Thus the increase in the cost of food within the official index was accelerated, reaching its peak in February 1948, when it exceeded by 36 per cent the level at the start of the Plan year. It was only in June 1948, with the bigger crops in prospect, that the index perceptibly fell below the maximum.

	Wholesale prices			*Cost of living*		*Hourly Wages in Manufactures*
	Total Index	*Farm Products*	*Industrial Materials and Products*	*Total*	*Food*	
	(January 1947 = 100)			(Aug. 1946 = 100		(Jan. 1947 = 100)
1947						
July	120·1	170·5	105·9	110·0	117·0	128·6
December	127·3	185·0	110·4	126·5	149·9	164·0
1948						
January	127·7	186·2	110·5	128·4	153·1	
February	131·4	186·2	116·4	132·6	159·9	
March	133·8	195·6	116·8	130·0	154·8	
April	135·0	200·9	117·1	130·6	156·3	
May	136·0	204·7	117·5	132·5	158·5	
June	131·9	186·0	117·8	127·2	142·1	
July	130·9	182·1	117·6	117·0	128·0	197·5

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shortage in vegetable food. Harvests in maize and sugar-beet were, however, disappointing. Failure of the maize crop explains why supplies in meat continued to be scarce.

It may be recalled that during the first Plan year the country laboured under a food shortage, with all its implications for prices and wages. The period August-December 1948 was the first since the monetary reform in which the cost of food declined. A reversal in the trend of agricultural prices, due to causes already explained, was the prelude to this change.

The extent of the improvement brought about by bigger crops might be illustrated by comparing the peak of the retail food index in February 1948 with the low point of that year in September: 159·9 against 113·9.[1] Prices then caught up again with a concomitant revival of the black market, as apportionment even of the low rations became irregular. It was a poor record of the state of efficiency in food administration. Political headquarters accused the peasants of sabotage. The countermeasures taken were not to produce palpable results till the following year.

Wage policy was adapted to the change of conditions. In contrast with the line pursued at the start in August 1947, the second Plan period did not open with a general rise in wages.[2] The pay-roll in manufacturing industry grew roughly in proportion to the expansion of employment. Average wages, as shown by official indices, were kept stable in mining and appeared to decrease slightly in manufacturing industry. The Government and trade unions were able to follow this line owing to increased food supplies reflected in declining official prices and owing to a diminishing dependence on the black market.

The publication of index numbers, as well as of other relevant statistical data, ceased in 1949. The National Planning Department, in a statement released to the press, claimed that real wages had increased by 20 per cent during the first half of the year. In the second half a further general rise by 5 per cent was recorded. In the earlier periods the upward movement of money wages had been induced and accelerated by soaring food prices. This time the cost of living was diminishing. The harvest of 1949 further improved vegetable food supplies. It was followed by the de-rationing of bread and by the practical disappearance of the black market for food. According to official statements the cost of living decreased by 7·4 per cent and the cost of food dropped by 12·4 per cent during 1949. Wage increases gained therefore a different significance from those previously

[1] See Table IV in the Appendix, pp. 137–8. [2] See p. 50.

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435 granted; their effect on purchasing power appeared reinforced
465 by the reduced cost of living. These developments, combined
511 with an increased output of manufactured consumer goods, resulted in improved living conditions. There can be little doubt that more abundant supplies resulted in an appreciably higher standard of living in comparison with the level at the start of the Plan, though statistical data revealing the degree of improvement are lacking.

INVESTMENT AND FINANCE

652 The first and one of the most important implications of the
454 decision to shorten the total period of the Plan was the speeding up of the capital programme. For the financial side of the programme, the Government disposed of a banking system shaped according to the Soviet pattern, and entirely under their command. The bulk of investment was naturally financed, as before, out of the budget. It became a characteristic feature of estimates of investment that they represented minimum programmes. For the short second Plan period the estimate had been 1,100 million forint, while actual investment worked out at 1,530 million. For 1949 the corresponding figures were 4,300 million and 5,660 million forint. In a final report the latter amount appears to be raised by a further 630 million forint. In view of the tightness of financial controls, any exceeding of the capital programme (unless consequential on authorized increases in wages or prices) was impossible without a previous screening and consent of the authorities. An extension of investment, whether initiated by some Government agency or by the executives of one of the concerns, was to be fitted into the monthly financial plan, which was drawn up by the National Planning Department in co-operation with the Ministry of Finance, and had to be approved by the Supreme Economic Council. As the speeding up of the capital programme mostly affected heavy industry the extension of which was, not solely for economic reasons, the concern of the Government, initiative evidently lay mostly with the Government. Both the Government and the Planning Department were intent on extending the capital programme to the limit of technical possibility.

The increasing financial strain is reflected in the following figures:

	Monthly Average of Investment (million forint)
Plan period I	208
Plan period II	306
Plan Period III	470–520

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clude an internal calculation of interest for the use of the planning authorities for the purpose of cost accounting. The inclusion of a hypothetical charge for interest would make more realistic the obligation imposed on the enterprises to earn profits for the Treasury. Net surpluses so calculated, after taking due account of costs, including the cost of capital engaged in the enterprises, might serve as a criterion for the guidance of the planners in comparing the desirability of investment. Yet the 'profits' delivered to the Treasury are not the outcome of an appropriate system of accounting. They are derived from the excess of receipts from sales over total expenditure. Replacements are provided for from a centrally-managed depreciation fund into which the concerns are bound to pay contributions separately fixed for each branch of industry. Characteristically enough these contributions are also based on the sales of the enterprises.[1]

The absence of a calculation of capital costs from the account makes the prices of the products of heavy industry relatively low. The resulting distortion of the price structure might have been corrected by varying the percentage to be added to the costs (consisting of expenses for materials, wages, replacement, and maintenance), on account of the margin of profit to be delivered to the Treasury. But that was not done; the margin was equal for the whole range of industry.

Perhaps the underlying idea was that the paramount purpose of fostering the expansion of heavy industry would be furthered by fixing low prices for its products. But it would seem that the low prices were of little practical effect in stimulating demand. Where, as in most instances, the products were bought by one publicly-owned enterprise from another, the price was merely a matter of book-keeping, and losses on the one side balanced gains on the other.

On the other hand, in the case of exports, any underpricing inflicts a definite loss on the economy. This point is not unimportant in view of the considerable deliveries of the products concerned to the Soviet Union.

The objection might be raised that a more realistic method of cost accounting would be of little relevance for directing investment when the greatest part of it (i.e. that in heavy industry) was determined regardless of economic considerations. Yet, whatever the objectives adopted on political grounds might be, it was possible to approach them in ways either more or less in accord with economic principles. The Planning Department certainly drew up calculations to enable a rough comparison to

[1] See below, p. 86.

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PRINCIPLES OF PRICE POLICY

The Hungarian planners' conception of price policy was to secure conditions conducive to planning. This called for a stable price level, an aim which had been pursued (though not realized) in the interval between the monetary reform and the initiation of the Plan. Thus the guiding idea for price policy at first adopted under the Plan was to use the existing controls to establish and maintain a stable price level as an adequate basis for calculation. But presently the objective was modified in that a gradual reduction of prices at a later stage was aimed at. This reduction, which was to be brought about by levelling down industrial costs, was regarded as a means of raising real wages. Hopes were attached in particular to improvement in the productivity of labour, but the course of events brought them to nothing. The policy was to avoid disturbances of the execution of the Plan being caused by price movements, which would vitiate cost calculations and wage policy. Yet price policy was not regarded as an instrument of planning in the sense of bringing about adjustments of demand and production in a general way in order to facilitate the fulfilment of the Plan.

In an entirely collectivist society it would be a matter of expediency whether public expenditure should be met by taxation or by charging prices high enough to leave a margin for the Treasury to cover the cost of public services and investment under the Plan. This simple formula did not apply, however, to Hungary under the Three-year Plan, so long as some parts of manufacturing industry, handicrafts, retail trade, and, above all, agriculture were in private ownership. The co-existence of public and private enterprise called for a system of taxation to be applied to the whole of the economy. Soon after the general nationalization of manufacturing industry the authorities declared that the nationalized enterprises should pay taxes to the same extent as under private ownership. It followed that taxes had to be included in the calculations of Government-owned concerns. In addition these concerns had to deliver surpluses to the Treasury. In the budget for 1949 former sources of revenue were topped by a new one, the profits of nationalized enterprises. The margin between the prices charged for the public and the cost of products (without allowing for expenses centrally incurred) was to flow under two principal headings into the Treasury: taxes on the one hand, 'profits' or surpluses on the other.

Under conditions prevailing in Hungary two essential points had to be considered when fixing the prices for products of

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435 Government enterprises. One of these was the relation of prices to wages. The raising of the workers' standard of living having been proclaimed as the main objective of the Plan, the price of necessities was to be kept within the means of the wage-earners. This requirement had to be reconciled with that of avoiding the danger of inflation which would necessarily have threatened if the nationalization of enterprises had involved a gap in the public revenue. Prices were therefore fixed at a level conforming with the principle proclaimed by the Treasury. Once established, this level had a tendency to become rigid. As soon as fiscal claims appeared to be satisfied, social considerations gained overriding importance. This prevented the application of sliding purchase-tax rates as an instrument of adjusting supply and demand. In some cases a dual price system was introduced for manufactured goods used by the general public. In an attempt to reconcile conflicting economic and social aspects price increases for utility types, subject to rationing, were avoided, while the prices of goods outside the utility range were sharply raised. This expedient failed, as a rule, to achieve its object, the quantity available for sales on the free market being usually a fraction too small for bringing about perceptible adjustments.

The second fundamental point to be considered when fixing the selling prices of the products of public concerns was the relation of the latter to agricultural prices. A rate of exchange between the products of the industrial and agricultural portions of the economy must be found which keeps husbandry going and, beyond that, enables the farmers to develop their equipment. This aspect of price policy was particularly important if it was intended not only, as would be natural in the case of Hungary, to rely on domestic food supplies but also to build upon agriculture as one of the main export industries.

From the point of view of the methods of price policy three groups of commodities can be distinguished:

(1) Commodities with prices kept stable during relatively long periods, if need be by granting subsidies;
(2) Commodities with prices fairly adjusted to the market situation;
(3) Commodities with prices governed by controlled cost.

Group (1) includes important foods like bread, flour, fats, and milk, also coal and basic industrial materials such as pig iron and steel, the prices of which entered into the whole industrial price structure.

435 652 In the financial year 1947–8 (August to July) the stabilized price of bread and other food required subsidies amounting to

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88·5 million forint. It was much more expensive to keep coal and iron prices at the chosen level. In fact, the combined deficit of coal mining and heavy industry, which the Government had to cover, was nearing 400 million forint. It is true that this amount included expenditure for replacements and even for disguised capital extensions. Yet another 27 million was spent on iron price subsidies, and still a share in the financing of the deficit of the coal and iron industries was passed over to the National Bank. In the next financial year the visible burden imposed on the budget became less. Price adjustments and also cost reductions may have brought some relief.

The second group of commodities, with prices adjusted on the whole to the market position, consists mainly of those food products the supplies of which are subject to seasonal fluctuations, such as eggs, potatoes, and other vegetables. For these commodities the authorities were disinclined to adhere rigidly to the officially proclaimed standard prices.[1] There was in particular a group of Moscow-trained men in key positions who had a marked preference for a freer play of the mechanism of the market. They did not conceal their contempt for market control and rationing, as being unpopular relics of war economy, and they were quick to release these controls as soon as the supply position became somewhat more hopeful. Sometimes they succeeded in their action, so that the prices of the free market established themselves between the former black-market prices and the former official ones. But in some cases in which the adherents of the market mechanism had hoped to rake out hidden reserves by the liberation of prices, the action proved to be a failure. In the absence of appreciable reserve stocks, prices soared even above the former black-market level. The price movements of the articles concerned were therefore erratic, and hardly consistent with a planned economy. As consumers were compelled, in view of the extremely low rations, to buy part even of the rationed food on the black market, a considerable part of supplies changed hands at free or black-market prices. This is true in particular of the first Plan year. Thus food prices were determined to a large extent by the actual purchasing power of the consumers, and only in part by regulations issued by the authorities.

It would hardly be correct to qualify these short-term movements, representing adjustments to momentary supply

[1] The announcement of standard prices was mostly related to local markets. Violation of these prices did not involve an offence against the Act of Price Regulation. However, in case of heavy fluctuations administrative action was sometimes taken against excessive profiteering. An essential point in fixing a standard price was that the communal enterprises for food supply were bound to keep to it.

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435 433 situations, as a sign of the predominance of the market. Agricultural production was, in fact, fundamentally guided by the decisions of the Government on the price relation between vegetable and animal products and by other measures more directly applied. Nevertheless, in some instances farmers may have been influenced in their decisions concerning cultivation or stock-raising by considerations of prices obtainable on the free or the black market. Thus even a market intended to be an instrument in the hands of the planners has retained a limited regulating influence of its own, and has left some latitude for the guidance of production by the consumer's choice. This applies to the urban as well as to the rural population. The farmer was free to choose whether to spend the money income left to him on buying implements, fertilizers, or textiles, and was able to decide in what proportions his money should be allotted to these different uses. It is obvious that the choice must depend on the relative prices and the quality of the products. When implements were offered which did not suit the peasants' requirements, they were rejected, and the production programme of several factories had to be revised. When prices were fixed too high, buyers' resistance resulted in an accumulation of stocks, which threatened to derange the economic process in the sectors concerned. Resistance of this kind was experienced from the peasants, who found that the prices of fertilizers were out of proportion to the grain prices in force in 1947–8. Similarly consumers were reluctant to buy the products of the food-preserving industry, as the prices were found out of range of their income level. In both cases prices as well as costs had to be thoroughly revised and special credit arrangements to be made for the period of absorption of excessive stocks.

434 433 The market, though subservient to the Plan, claimed its right. It proved inevitable to acknowledge these rights to a certain extent in an economy based on money incomes. The planners were aware of this, and were prepared to heed warnings coming from the market, which was still regarded as a useful instrument. However, the field within which consumers' preferences could be effective had been from the first delimited. The extension of the capital-goods industries, being centrally decided, was not subject to that influence. The scope left to the consumer's choice was, in fact, to induce shifts in the production of consumer goods, but only after the fundamental allocation of resources to the production of capital goods on the one hand and of consumer goods on the other had been made.

435 The third group of commodities, those of which the prices were governed by controlled cost, included the wide range of

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industrial finished products. The price control was technically carried on on the old lines by a bureaucracy with methods derived from the practice of war economy. There was a tendency inherent in this bureaucratic control to accept ascertained costs as justified. Thus it was the cost of the least efficient producer which generally decided the price, without due regard to a necessary interaction of cost and prices. Hence the incentive to rationalization and higher efficiency was practically eliminated. This misconception was seen and fought against from the outset by the responsible authorities. The Government repeatedly directed the Office of Price Control to decree general cuts in industrial prices. The whole apparatus of price control, however, far from being efficient, proved slow in translating principles into practice.

The National Planning Department, in outlining the objectives of the Plan, in its first official publication declared: 'No step by step increase of prices should be tolerated, as it would create uncertainties in the various sectors of the economy'.[1]

Actual developments deviated from these objectives. During the year preceding the Plan the price index for farm products had almost doubled. The upward movement persisted, though at a slackening pace, in the course of the first Plan year. During 1947–8 the general price level rose by 9 per cent, covering price increases of agricultural as well as of manufactured products. But, while the upward trend of the former had flattened by mid-1948, and then gave way to a setback, industrial prices were steadily rising from July 1947 up to December 1948.

WHOLESALE PRICE INDICES*

January 1947 = 100

		Total	*Farm Products*	*Raw Materials*	*Industrial Finished Goods*
1946	August	99	87·6	98·7	102·5
	December	98·2	92·6	97·3	100·2
1947	July	120·1	170·5	110·5	104·8
	December	127·3	185	114·5	109·4
1948	July	130·9	182·1	120·7	116·3
	December	124·1	146·1	123·3	119·6
1949	May	123·9	147·1	121·6	119·2

* The publications of index numbers was discontinued after May 1949.

It is remarkable that the relation of industrial and agricultural prices was the reverse of that originally conceived. By the end of 1948 the index of farm prices (in spite of the preceding setback) exceeded the level of August 1946 by 67 per cent, compared with a rise of 17 per cent of the industrial price

[1] National Planning Office, *Magyarország Háromléves Terve—The Hungarian Three Year Plan* (Budapest, 1947), p. 46.

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435 index. This fundamental change in price relations indicated an improved position of the rural population. The improvement was considerable, even if the opportunities of selling some part of their products above official prices be disregarded. This development was enforced by economic facts; its operation seemed, however, to have been assisted by political considerations.

As far as farm products were concerned, price policy was imposed on the planners by the economic facts. Regarding industrial prices, governed by costs of production, the Plan pressed for improved efficiency and economy, and would not accept actual current costs as the standard. However, prices were being forced up by rising costs of materials and wages. Also managements tended to overstate their costs in order to enlarge their surpluses. The pressure exerted by these factors prevented the authorities from handling price policy as an instrument for planning production. So far as capital goods were concerned, no special stimulus was needed, for the Plan provided for their absorption at official prices. As to consumer goods, the authorities, haunted by the increasing costs, vacillated between the financial and the social points of view. Financial aspects were mostly dominant, yet as soon as consumers' resistance became perceptible (as referred to on p. 82) endangering sales of the products, hasty measures were taken to reduce prices. In a seller's market adjustments of this kind easily brought about the shifts desired, while the price reduction of the article concerned led to a re-examination of costs of production.

It is not possible to detect whether the tendency of the official policy of fixing prices according to the cost of the least efficient producer underwent some change. Possibly deficiencies of price policy were made up to some extent by the compulsion to produce increasing surpluses, the compulsion acting as an incentive to reduce cost. However, the pressure brought upon the executives of public enterprises might result as well in capital consumption.

SOME ASPECTS OF COST CALCULATION

451 Economy of costs in industry was an integral part of the Plan.
456 Progress in that field was, in fact, indispensable to fulfil so
435 ambitious a programme. Special attention, therefore, was given to the methods of costing. They were worked out with the characteristic limitation of excluding the calculation of capital cost (see pp. 76–8). The fundamentals of the costing system are worked out clear-cut in a decree issued by the Supreme Economic Council in February 1949. It was naturally based on

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previous rulings, which it completed in some detail, and gave greater precision on certain points. According to the decree price calculation has to be built up in three stages:

(1) Processing costs;
(2) Costs of management and distribution;
(3) Taxes and profit.

The total of the first and second groups makes up the actual costs, and the selling price is obtained after adding to these costs taxes and profit, constituting the third group within the calculation. A peculiarity of this scheme of calculation is that in its classification it throws prime costs and overhead costs together. The decree specifies the following under processing costs: materials, wages, social services, special processing costs (such as models or experiments associated with a special branch of production), and finally overhead costs, so far as these are not included under management and distribution. Allowance for replacement naturally constitutes a further element of cost. The rate of the allowance must be that fixed by the National Planning Department.

The decree on costing was intended, besides setting rules for accounting, to ensure adherence to the regulations concerning prices and wages. Any calculation containing prices for materials exceeding official prices was ruled out. Wage costs should strictly conform to the level fixed in the collective wage agreements, and any expenditure arising from laxity in determining the norms for piece-rates should not be admitted. Separate regulations set a limit for expenditure on the social welfare of the employees. Fees paid to experts and commissions to salesmen were to be paid according to officially-adopted tariffs. Advertising costs were only admitted if previously approved by the competent authority.

A further objective of the decree was to prevent uneconomic methods of production. Expenses for raw materials were to be accepted only for technically justifiable quantities. Elaborate regulations were designed to exert pressure on management to keep waste and faulty production within narrow limits. Losses on these accounts were to be calculated separately, and were admitted as costs only as far as they did not exceed the average in the industrial branch concerned. This average was to be determined by the Industrial Directorate, and losses above that level had to be borne by the enterprise. In particular, the inclusion of losses arising from defective production of whole series of articles in the cost calculation was not allowed.

These rules applied equally to privately and publicly-owned

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454 652 provided for 80 to 85 per cent of the requirements for capital expenditure during the first Plan year and the second shortened Plan period.

Private savings were to a certain extent absorbed by investments carried out outside the Plan. They were not of negligible importance in agriculture. There was an increase in livestock of an approximate value of 500 million forint (at current prices) in 1947–8. This sole item amounted to almost 20 per cent of the total capital programme of the Plan. The farmers were anxious to replace their livestock, and had at the beginning, in particular, very limited possibilities of procuring machinery and instruments. A smaller proportion of rural savings went into buildings. The thrift of the peasants, practised even under unsatisfactory living conditions, provided means for these investments. Many of them were also able to take advantage of prices on the black market. Later, in the spring of 1948, the peasants profited by the lifting of price control from a number of their products. Subsequently they were benefited by larger crops.

Within the system of mixed economy, accumulation in trade and in small-scale industry was also significant. These classes were able to take advantage of the black market. But the beneficiaries of profiteering mostly did not seek productive investments. Their earnings, derived from charging prices quite out of relation with the general income level, caused actual dissaving by many of the urban population. The possible degree [435] of profiteering may be gauged by the wide range of differences between officially fixed and black-market prices as registered in May 1948 in Budapest.

	Official Price	*Black-market Price*
	in forint per kg. (2·20 lb.)	
Bread	0·92	5·0
Flour	1·40	8·50
Fat	12·0	23·50
Beef	8·40	12·0
Sugar	7·20	12·50

Speculative profits were bound to encourage luxury production, and thus to divert resources from utilization in accordance with the Plan. When spent, the profits were likely to pass through the black market again. Gradually these illegal profits lost their significance owing to the tightening of controls, and even more, to the improvement of supplies. But evasion of exchange control and the concealment of illicit profits were among the factors which caused the authorities to abandon the idea of launching a loan in the first year of the Plan.

Failing the issue of loans, financial requirements could not be fully met by savings (whether compulsory or voluntary). During the first and the second Plan periods 15 to 18 per cent

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change of commodities can be continued even though not justified by comparative costs.

At the beginning of 1949, when the Advisory Council for Mutual Aid was established in Moscow, it was believed in some quarters that the Council would form a nucleus for supernational planning. It did not go so far.[1] The second Hungarian Plan, like the first, is a national plan, in the sense that it has not been integrated into a more comprehensive regional system, aiming at co-ordination of industrial expansion, but has been limited to the development of national industries. Though both Plans were national in their technical character, it is not to be inferred that they were truly national, in the sense of serving as far as possible the real interests of the Hungarian people.

If any central conception has been shared by the Eastern plans it has been the rapid development of heavy industry. The Hungarian planners followed this line faithfully. Within the Three-year Plan some 80 per cent of industrial (or 25 per cent of total) investment served the expansion of the capital-goods industries. Engineering and the generation of power were the main objects of this development. The capacity for producing iron and steel, which forms the basis of heavy industry, was not extended under the Three-year Plan. The existing works were producing at capacity. For their iron-ore supplies they had to rely to the extent of at least 60 per cent on material brought from abroad, some of it from afar. Requirements of metallurgical coke had to be met up to 80 per cent by imports. During the inter-war period Czechoslovakia and Yugoslavia had been the main ore suppliers. When deliveries from Yugoslavia fell off, the Soviet Union stepped in as an important source of iron ore. Following the war, it was Russia again that provided coke, which had previously been mostly drawn from Silesia. All this points to the conclusion that the location of the Hungarian blast furnaces is far from satisfactory, as the bulky materials they need have to be transported by rail over great distances. High production costs are reflected in the prices of steel products, as is shown by the following comparison

[1] It is noteworthy that co-operation in limited fields with Poland and Czechoslovakia had been initiated prior to the erection of the Council for Mutual Aid. Negotiations were carried on on a bilateral basis before and after the formation of the Moscow Council. Moreover, a Hungarian-Polish Committee for Economic Co-operation had been established with a view to co-ordinating the plans. This latter met frequently and, besides points of minor importance, dealt with the division of labour to be carried through in some of the light industries of the participant countries. To what extent these major objectives have been realized is not clear. On the whole, deliberations went on in that specific atmosphere of international committees, taking technical decisions only. Characteristically enough the issue of a division of labour in the heavy industries has never figured on the agenda.

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433 [435] of Hungarian official prices, calculated in sterling at official rates, with quotations in Great Britain.

	Hungarian Price	*British Price*	*Difference in percentage*
	Mid-1948		
	£ s. d.	£ s. d.	
Mild steel sections per ton	32 10 0	19 10 0	66
Mild steel sheets 28/m per ton	44 10 0	29 10 0	50
Gas pipes 1 in. per meter	3 2	1 6	111
Vacuum "B B" oil per kg.	3 5	1 3	173

[328] The considerable extension of aluminium production provides another example of the uneconomic use of resources. Though domestic supplies of bauxite are ample, the cost of processing aluminium is, in the absence of cheap hydro-electric power, extremely high. It is indicative of the high cost of production that the price generally charged for aluminium in Hungary was three times that in Great Britain, while even a special reduced price was double.

[327] Steel production is to be almost trebled under the revised second Plan. The erection of new iron and steel works on the Danube is in progress. The bituminous coal mined in Hungary was, until recently, not suitable for producing foundry coke. A new process is believed to achieve technically satisfactory results. But according to a calculation of cost drawn up in the Ministry of Industry, it is much too expensive. For iron-ore supplies, the new works will be entirely dependent on Russia, at least so long as deliveries from Yugoslavia are out of the question. Ores mined in the Krivoi Rog district will be shipped via the Black Sea and the Danube. Thus the Hungarian iron and steel industry will be linked by double ties to Russian economy, the latter providing the raw materials as well as the market for the products. Under this aspect the new iron works on the Danube appear to be an extended arm of Russian heavy industry. This expansion was conceived in the spirit of a war effort as opposed to economic planning. Economic considerations would not have allowed such a disregard of cost.

PLANNING AND THE SCALE OF NATIONALIZATION

000 Experience in Hungary has not contributed to settle the controversial issue whether effective planning could be based on a system of mixed economy or only on one of full-scale nationalization of industry. During the short-lived first phase of the Three-year Plan the impulse it imparted to production and investment was, no doubt, successful. The evidence did not substantiate Communist charges of sabotage during this period,

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TABLE IV

PRICES

(1) *Wholesale Prices*

(January 1947 = 100)

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1946	*Total Index*	*Farm Products*	*Industrial Raw Materials*	*Industrial Products*
August	99·0	87·6	98·7	102·5
September	99·0	89·7	98·7	102·5
October	98·2	90·1	98·4	101·6
November	98·5	93·1	97·1	102·9
December	98·2	92·6	97·3	100·2
1947				
January	101·9	107·4	102·7	99·8
February	103·7	112·1	102·7	101·4
March	106·5	122·1	103·1	102·4
April	108·6	127·5	103·3	102·9
May	114·4	150·2	106·6	103·2
June	118·8	166·1	110·4	104·4
July	120·1	170·5	110·5	104·8
August	121·2	174·0	111·0	104·9
September	120·5	169·7	111·4	106·3
October	124·2	180·3	111·9	106·7
November	124·4	178·6	113·2	107·1
December	127·3	185·0	114·5	109·4
1948				
January	127·7	186·2	114·3	109·5
February	131·4	186·2	119·3	114·6
March	133·8	195·6	119·5	115·1
April	135·0	200·9	119·6	116·4
May	136·0	204·7	120·4	113·2
June	131·9	186·0	120·4	116·9
July	130·9	182·1	120·7	116·3
August	132·1	186·3	120·7	116·6
September	126·4	159·4	121·3	118·9
October	127·8	164·6	120·5	119·0
November	124·7	150·4	119·9	119·5
December	124·1	146·1	123·3	119·6
1949				
January	123·2	142·6	123·3	119·3
February	122·7	141·4	123·3	119·1
March	122·9	141·3	122·8	119·5
April	122·7	141·2	121·5	119·4
May	123·9	147·1	121·6	119·2

(2) *Cost of Living*

(August 1946 = 100)

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1946	*Total Index*	*Food*	*Clothing*
August	100·0	100·0	100·0
December	106·2	113·5	102·3
1947			
March	113·2	126·3	106·2
April	118·5	135·7	106·9
May	114·1	125·2	113·3
June	119·2	135·4	113·3
July	110·0	117·0	113·3
August	110·8	120·1	112·8
September	115·1	128·3	113·6
October	126·7	151·0	113·6
November	130·8	159·2	113·6
December	126·5	149·9	114·5

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TABLE XI

NATIONAL INCOME*

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	1938	1946–7	1947–8
		million forint	
Net contribution of:			
Agriculture	6,820	3,964	5,060
Mining and metallurgy	574	628	732
Manufacturing industry	6,516	3,760	6,277
Handicrafts	3,229	2,062	2,481
Trade	2,210	1,408	1,836
Transport	728	463	621
Plus Taxes on consumption	1,546	1,350	1,739
National income at market prices	21,623	13,635	18,746
Plus (minus) import (export) surplus	−1,103	+118	+440
	20,520	13,753	19,186
Less Public expenditure on goods	−2,830	−916	−1,655
International commitments	—	−1,436	−1,223
Investments	−1,373	−712	−2,374†
Value of goods available for private consumption‡	16,317	10,689	13,934

* The value of housing and personal services not included.
† Revalued at 1947 January prices, including private agricultural investment.
‡ Without allowance for the replenishment of stocks (see p. 51).

TABLE XII

INTERNATIONAL COMPARISONS

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(1) *The Price of Food in Terms of Working Time of Industrial Workers Mid-1949*

Minutes per kg. or litre

	Bread	Potatoes	Milk	Meat	Bacon	Butter	Sugar
Hungary	19	9	28	160	430	440	110
Poland	29	10	29	110	330	420	110
Italy	38	13	28	300	660	490	100
France	28	12	27	240	150	440	75
Switzerland	11	11	11	140	160	230	25
United Kingdom	11	7	16	84	120	75	22
United States	13	4	9	64	64	70	9

SOURCE: U.N., Economic Commission for Europe, *Economic Survey of Europe in 1949* (Geneva, 1950), p. 37.

(2) *Consumption of Selected Textiles*

per kg. per person per year

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	Cotton		Wool		Rayon		Total	
	1938	1948	1938	1948	1938	1948	1938	1948
Hungary	2·7	2·3	0·6	0·4	0·45	0·17	3·8	2·9
Rumania	1·8	1·4	0·7	0·4	0·07	0·15	2·6	2·0
Poland	2·0	2·8	0·5	0·5	0·31	0·71	2·8	4·0
Czechoslovakia	3·8	3·5	1·0	1·2	0·28	1·85	5·1	6·6
Italy	2·0	3·0	0·6	0·9	1·55	0·54	4·2	4·4
France	4·6	5·2	1·8	2·3	0·58	1·48	7·0	9·0
United Kingdom	8·2	6·7	3·1	2·7	0·97	1·53	12·3	10·9
United States	10·0	13·3	1·0	2·2	1·07	3·41	12·1	18·9

SOURCE: U.N., Economic Commission for Europe, *Economic Survey of Europe in 1949* (Geneva, 1950), p. 33.

national income to a level roughly 100 percent above that of prewar.[1]

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Parallel with the increase of the national income, the share of industry will be increased from 50 percent in 1949 to 59 percent in 1954. In 1938 its share was 35 percent and it rose to 44 in 1943.

In the blueprint of the Three Year Plan and also in the First Year Report of 1947, January prices were used. If the national income was in fact 27 billion forints in 1949, at January 1947 prices it would have to be 44 billion forints in 1954. The increase would be 2.7 billion in the first year, 3.1 billion in the second, etc., provided the rate of increase is constant, that is, 10.3 percent.

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The detailed calculations of the plan are based on a new set of prices. The prices themselves have not been published nor has any indication been given of how they compared with some known set of prices. However, the text of the act gives some clue. It gives the planned percentage increase of production over 1949 and it also gives the value of the expected output in 1954. The 1949 values can be worked out on the basis of percentages given in the Final Report of the Three Year Plan from the 1938 output and with the percentage increase given, the 1954 value at January 1947 prices can also be worked out.[2]

Significantly, while the overall increase for manufactured goods is 20 percent, the range of variation is considerable. The largest increases appear in metallurgy, glass, leather and textiles, reflecting the shifts in the prices of raw materials, the main source of which is the Soviet Union. Chemicals, food and clothing are below the January 1947 level. In clothing, the large-scale introduction of ready-to-wear goods offers adequate explanation of the reduction in prices. The case of chemicals is not easy to explain. The reduction in the prices of processed foods seems to indicate that food prices are kept low and that, with the prices of manufactured goods up, agriculture is being squeezed.

If the assumptions on which the above calculations are based are correct, at the new "plan prices" the national income of 1949 can be around 35 billion forints and that of 1954, around 57 billions.

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1. Erroneously, the chairman of the People's Economic Council (Eruo Gero) gives the mathematical average (63.5 - 12.6) which makes no sense except that, being greater than the true rate of growth (the geometric average), it makes the increase look more impressive.

2. The results of the calculation are presented in Table VIII in the Appendix.

Table VIII

PRICE RATIOS UNDER THE THREE YEAR AND FIVE YEAR PLANS

	1948 Output At January 1947 Prices	1949 Actual Output		Planned Output, 1954			"Plan Prices"
		1938=100	At January 1947 Prices	1949=100	At Jan. 1947 Prices	At "Plan Prices"	Jan. 1947 Prices
	Million Forints	Percentages	Million Forints	Percentages	Million Forints		Percentages
Mining	642.4	139.5	896.1	155.2	1,390.8	2,153	155
Metallurgy	511.0	133.0	679.6	195.0	1,325.2	4,723	356
Power	492.3	168.5	829.5	194.1	1,610.1	1,611	100
Manufacturing							
Iron & Metal	1,292.4	181.9	2,351.1				
Engineering	1,506.4	212.1	3,195.1	198.2	10,992.5	11,559	105
Clay, Earthenware	400.0	124.1	496.4	214.8	1,066.3	1,149	108
Glass	84.0	162.7	136.7	126.0	172.2	261	207
Chemicals	1,319.4	174.0	2,291.6	238.0	5,454.0	4,643	89
Leather	481.4	88.4	425.6	178.0	757.6	1,500	198
Wool	352.5	123.0	433.6	178.4	772.6	989	128
Paper	221.0	136.7	302.1				
Printing	202.0	134.3	271.3	156.0	894.5	1,357	152
Textiles	2,871.5	110.9	3,184.5	152.0	4,840.4	9,267	192
Clothing	631.8	145.7	920.5	350.0	3,221.8	2,609	81
Food	3,702.0	166.4	6,160.1	170.1	10,478.3	9,300	87
Total	13,064.4	154.4	20,168.6	191.6	38,650.2	42,814	111
Total Excl. Food	9,362.4	149.6	14,008.5	201.1	28,171.9	33,514	119
Grand Total	14,710.1	153.4	22,573.8	190.0	42,776.3	51,301	119
Grand Total Excl. Food	11,008.1	149.1	16,413.7	198.0	32,298.0	42,001	129

Source: National Planning Office, The Three Year Plan and Final Report on the Three Year Plan, (Hung.); Act XXV of 1949, re the First Five Year Plan of the Hungarian People's Republic (Hung.).

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

Operations in the oil fields had been little disturbed 315 433 by the war, and in the immediate postwar period production was maintained at a relatively high level. The 1945 crude production of 656,000 tons (4,990,000 barrels) and the 1946 output of 675,000 tons (5,130,000 barrels) was exceeded only during the peak war years, and represented one of the few bright spots in the otherwise rather bleak economic picture. However, neither the owners of MAORT nor the Hungarian economy benefited very much from this production. In 1945-1946, the bulk of the crude went to [439] the Red Army without payment, while in the following years, 1946-1948, much went to the Soviet Union and neighboring satellites as forced exports or as reparations. During [435] this period the crude had to be delivered to the government at arbitrarily fixed prices.

In the spring of 1948, paralleling the second wave [471] of nationalization, the directors of MAORT were tried for [487] sabotage of the Three-Year Plan, and soon after the company was confiscated. Subsequently, MAORT was sub- [473] divided into several "National Enterprises." Crude production fell to 569,000 tons (4,324,000 barrels) in 1947 and fluctuated between 475,000 and 500,000 tons (3,610,000 and 3,800,000 barrels) during the following three years. As noted above, the targets set in the Three-Year Plan were not reached, and by 1949 the persistent crisis in the oil industry became one of the planners' major problems.

The old Zala fields were nearing depletion and could no longer continue the forced production records of wartime, while the expected new discoveries did not materialize. An acute shortage of drilling equipment, lack of skilled labor, and successive purges of management materially contributed to this failure.

In eastern Hungary, the German-held MANAT con- 315 473 cession was handed over to Soviet ownership. A Soviet-Hungarian Oil Company, Maszovol, was organized in 1946. Extensive oil explorations were carried out but no commercial oil discoveries were made until the end of 1949.

Hungary's refineries, unlike her oil fields, were 382 very severely damaged during the war. Refining capacity, 433

lap; none of it was given for nothing; none of it was obtained quickly, from one day to the next. He had to fight for this kind of life; it demanded self-discipline, hard work and a determined struggle against obstacles and difficulties. OUD

What he had to do, however, he did not have to do alone but together with the others, with the entire country. Like the exciting scenes of a film drama, across his mind race the various incidents in the history of this small nation since its liberation.

This is No. 1 Peace Avenue, where Mr. Gergely has his apartment.

When the roar of the guns subsided and the people of Budapest came crawling out of the cellars, the first task was to clear away the ruins, the marks of the devastation caused by the war. Then they could begin reconstruction. They had to rebuild ruined factories, plants, machines, replace losses —the Nazis had taken away everything that was movable — produce coal, iron, raw materials; start transportation; produce, work and struggle against the enemy, who did their best to bring back the past, the oppression of the working class, and the wealth acquired without work by the privileged few. 727

Ferenc Gergely's face darkens when he remembers the terrible chaos of inflation, when the wages received for a week of hard work scarcely paid for two pounds of sauerkraut. The horse-dealers, stock exchange sharks, black marketeers and speculators lived like kings and spent their 458 435

[ie, Hungarian Iron-worker --- Analyst]

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Sunday morning at home.

458 gold in expensive restaurants and nightclubs. The mag-
● 435 nates, the landlords, the fascist army officers, allied to all kinds of traitors of the working class movement, were conspiring and organizing underground to prevent the working people from rebuilding the country for themselves, for their own prosperity.

000 But they could not turn history back. The Hungarian working class was vigilant and strong, determined and untiring. Its fist was quicker and harder! Its persistance and heroic effort was crowned with success. The three year plan of reconstruction was achieved ahead of time (1947-49), and this permitted the launching of a plan on an even larger scale, the plan to build an entirely new Hungary. The Five Year Plan is the pride of the millions of Hungarians.

[322] Ferenc Gergely, together with thousands of his fellow
461 workers, works on Csepel Island in Budapest, in the largest industrial plant of the country. He is no stakhanovite, not even a decorated worker. Only the best, the most

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editor, Béla Zsolt. From all indications, Zsolt's articles carry a great deal of weight in influencing the public opinion of Budapest. The Smallholders' weekly publication, *Reggel*, manages to supply a detailed and interesting coverage of domestic developments, both economic and political. Such measures of internal reconstruction as the application of a nation-wide martial law and death penalties to black marketeers and smugglers are conscientiously discussed and appraised in *Reggel*.[31]

Few foreign language publications have penetrated the intellectual "iron curtain" around Hungary; Western political and literary materials cannot be disseminated. Soviet authorities officially protested in the fall of 1946 against the publication and distribution of the U. S. State Department Bulletin containing primarily official documents. The American Legation in Budapest, backed up by the State Department, has nevertheless continued to distribute the Bulletin on a mailing list basis. About 500 English language and 500 Hungarian copies are regularly sent to newspapers, and to a few carefully selected government officials.

Propaganda matters are handled by the Ministry of Public Information whose official objectives involve the "information and *influencing* of Hungarian public opinion." Democracy has to be accepted, states an official bulletin of Public Information, even by those who were misled by the destructive propaganda of the past few years and have thus far proved incapable of adapting themselves to Hungary's present-day democracy.[32] These broad and aggressive objectives were gradually implemented by such officials as the present Minister of Information, József Bognár, theoretically a Smallholder, in reality of the extreme Left. According to recent newspaper reports, his Ministry has organized hundreds of political and cultural indoctrination courses, given both in Budapest and in provincial communities under the personal supervision of Bognár. The courses deal with "timely political and social questions, including such problems as participation of the peasant class in a democracy and the successful methods of national planning."[33] Propaganda and press are closely interwoven in present

31 This drastic executive order was put into effect in December, 1946. Judges are in permanent sessions to deal with such cases without delay. In addition to Budapest tribunals, twenty-two provincial courts are handling "crimes" connected with black-market operations. Penalties range for a minimum of ten years' imprisonment to death sentences. Cf. *Reggel*, Dec. 2, 1946, p. 5.

32 Quoted in *Világ*, Nov. 23, 1946, p. 2.

33 Cf. *Magyar Nemzet*, Nov. 22, 1946, p. 3. The report indicates that there are over one hundred students in each course, the period of instruction covering about two weeks.